



# Guidelines

For

## Business Assistance Loan Program

Funded By

City of Hollister

With

Community Development Block Grant

October 4, 2012

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**CITY OF HOLLISTER  
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)  
BUSINESS ASSISTANCE LOAN PROGRAM GUIDELINES**

**1.0 INTRODUCTION**

The City of Hollister here after called “Lender” has established a Business Assistance Loan Program, here after called “the Program”. The Program is designed to stimulate economic growth and create jobs that will improve the living conditions of residents in the City of Hollister. The Program provides affordable non-conventional financing to eligible businesses and development projects. Businesses and development projects receiving these funds will be required to develop a sufficient number of net new jobs, or in the case of business preservation, retain existing jobs. These Program guidelines have been formally adopted by the Lender and shall be approved by the state CDBG program.

**2.0 BUSINESS ASSISTANCE PROGRAM OVERVIEW**

**2.1 Program Administrator**

The Lender has secured the services of Angel Johnstone, a qualified program administrator here after called “the Administrator” who has experience in originating business assistance loans and is familiar with state CDBG requirements. The Administrator’s detailed scope of services will be negotiated and included in a formal agreement for services executed between the Lender and Administrator. In general, the Administrator will market the Program, accept and process applications, underwrite and recommend approval of loans, ensure proper loan closing and disbursement of funds, maintain loan files and fiscal records and support the Lender’s staff in administration of state grants and program income used to fund this program. The Administrator will follow and ensure compliance with these guidelines.

**2.2 Program Service Area**

Financing under this Program is available to all eligible businesses located in the jurisdictional limits of the Lender. State CDBG funds may not be used in urban areas that receive CDBG funds annually from the federal Department of Housing and Urban Development (HUD) entitlement program.

**2.3 Source of Program Funds**

The Program is capitalized with CDBG funds provided by HUD to the State of California Department of Housing and Community Development (Department). CDBG funds are federal funds and as such have a number of federal requirements that must be met, as described below. CDBG funds come to the Lender from two sources: 1) Department awards grants to the Lender that are administered under a state grant contract; 2) loan funds repaid from previous CDBG activities (grant and program income loans), called CDBG program income funds, administered under a Lender adopted Program Income

Reuse Plan. As loans are originated under this program the repayments from those loans are returned and re-loaned out again to other eligible businesses.

## **2.4 Eligible Loan Applicants**

Loan applicants for the Program must be existing legal businesses with a proper local business license, proper insurance and required permits per state and federal requirements. If an applicant is a new start-up business and does not have the proper licenses or insurance, then these items can be made a condition of funding the loan. The business may be a tenant leasing space or the owner of the property where the business is located. The existing business must create new permanent full time equivalent (FTE) jobs. The business may also qualify by showing job retention to avoid business closure or staff reduction if not for the investment of CDBG funds. Retention applicants are businesses that will be shutting down permanently or moving operations to another labor market as defined in HUD guidelines.

Loan applicants may also be commercial developers or commercial property owners constructing a new building or completing tenant improvements in an existing commercial space. Funds can also be used to pay for off-site infrastructure costs of a new construction development project. For these projects, the developer must be underwritten and each business locating in the development must be underwritten in accordance with these guidelines.

## **3.0 CDBG PROGRAM REQUIREMENTS**

### **3.1 Eligible Activities**

Funds under this program are restricted to certain eligible costs. Some common eligible costs are: 1) operating capital; 2) furniture fixtures and equipment (FF&E); 3) rehabilitation of leased space or owned buildings (including engineering and architectural and local permits or fees); 4) purchase of manufacturing equipment (with or without installation costs); 5) refinancing of existing debt in conjunction with financing other eligible costs; 6) purchase of real property; 7) required off site improvements; or 8) relocation grants for persons displaced due to funding of the project. Loan funds will be disbursed on a reimbursement basis incrementally as eligible costs are verified.

Funds under this Program are provided to eligible businesses as loans. Eligible loans are underwritten with the similar standards and documentation as used by private commercial lenders, including review and analysis of credit capacity, equity contributions, historical income and expenses, projected income and expenses, available collateral, and debt coverage. CDBG underwriting may be more flexible in some instances depending on the business and requested loan amount. The terms of the loan are typically more favorable than conventional commercial lenders with lower interest rates and longer terms for repayment. These more favorable terms must be balanced by the borrower and Lender with the requirements to create jobs and meet other CDBG program requirements. The Administrator will work closely with the eligible

businesses to ensure they understand the requirements of the Program and the benefits of participating.

### **3.2 Ineligible Use of Funds**

Projects that do not create permanent full time equivalent (FTE) jobs are not eligible. Projects that are primarily housing in nature are not eligible. Projects not meeting a CDBG national objective or public benefit or federal CDBG underwriting standards are not eligible. Projects must have reasonable assurance of repayment of loan funds.

Funds under this Program will not pay for reimbursement of expenses incurred prior to Department and local loan approval and/or completion of project's environmental review. Program funds shall not be used to facilitate the movement of a business from one local labor market area to another, as per the job pirating restrictions under HUD regulations. Once approved, loan funds may not be reallocated from one approved use to another without formal written approval. Funds cannot be used to support other businesses in which the borrower may have an interest. Non profit organizations are not eligible to use funds for furniture fixtures and equipment (FF&E) or working capital. Funding a project without Department review and written approval will deem the project ineligible.

### **3.3 Meeting A National Objective**

All CDBG funded loans must meet a CDBG "National Objective" as described in the federal regulations and statutes. Furthermore, state regulations require CDBG economic development funds to meet one of the three CDBG national objectives described below, including:

1. National Objective of "benefit to low income households". In meeting this objective, the business receiving CDBG financing will be required to provide fifty one percent (51%) of the jobs created to low income persons. In order to meet this requirement, a third party designated by the Lender must certify family income levels of newly hired or retained employees to document that over half are qualified as low income. To ensure this requirement is met, the Lender will require low income job creation language and covenants in the loan closing documents. All employee information is confidential and will not be released.
2. National Objective of "elimination of slums and blight". In meeting this objective the business receiving the assistance is located in an area designated as blighted. The designated area in which the activity occurs must meet the definition of a slum, blighted, deteriorated or deteriorating area under state or local law. Additionally, these designated areas of blight must be approved by Department staff. Documentation of meeting this national objective shall include a resolution formally designating the area of the location of the business as blighted and that the investment of CDBG funds will assist in the prevention and/or elimination of slums and blight.

To comply with the national objective of meeting community development needs having a particular urgency, an activity must be designed to alleviate existing conditions which the local government certifies and State determines:

- Pose a serious and immediate threat to the health or welfare of the community;
- Are of recent origin or recently became urgent;
- The state grant recipient is unable to finance the activity on its own; and
- Other sources of funding are not available to carry out.

A condition will generally be considered to be of recent origin if it is developed or became critical within 18 months preceding the state grant recipient's certification.

*Reference:* 24 CFR 570.483(d).

### **3.4 Meeting Proper Public Benefit Requirement**

In order to meet the Public Benefit Requirement, CDBG regulations require the business to create or retain full time equivalent jobs. HUD federal regulations require that one full time equivalent (FTE) job must be created for each \$35,000 in CDBG assistance provided. In order to qualify as an FTE, 1750 hours per year must be worked and up to four (4) part time staff may be combined to make up one FTE.

To ensure this requirement is met, the Lender will require low income job creation language and covenants in the loan agreement that the borrower executes at loan closing. All employee information is confidential and will not be released. The loan agreement shall require the business to provide payroll documentation to the Lender or the Administrator showing job creation sufficient to meet the \$35,000 per FTE requirement. Upon review, and confirmation by the lender and the Department that the required number of jobs have been created or retained the business will have satisfied the Public Benefit Requirement. CDBG loans are meant to create long term employment opportunities but ongoing long term monitoring is not required.

All employees retained or hired as a result of CDBG financing must complete a self certification form. The form shall be provided to the Lender and all demographic and income information will be included in the Annual Grantee Performance Report submitted to the Department. See **Exhibit 'F': Sample Self-Certification Form for New Hires**.

### **3.5 Other Federal Requirements**

There are a number of other federal laws and requirements that are triggered with the use of CDBG funds. The Lender and Administrator will take the lead and ensure compliance with all CDBG regulations in conformance with standards set by HUD. The impacts that these federal regulations will have on a proposed project will be explained to the borrower at the time of loan application.

A. National Environmental Policy Act (NEPA). NEPA regulations require an

Environmental Review Record (ERR) be submitted for each project / business funded by CDBG monies prior to award or approval of funds. The Lender is required to complete the proper NEPA review and include the proper documentation in the Loan package. The ERR level of review is based on the type of project proposed and ALL aggregated activities to be undertaken. The Administrator may complete the ERR for the Lender however the Lender must sign the document and take legal responsibility for the review. State CDBG staff must review and approve the ERR prior to commencement of the project and loan approval.

Applicants will be informed of any additional time required for loan processing due to the NEPA review. The ERR will be completed as soon as the Administrator determines the project is eligible for funding. No costs will be charged to the borrower for this process. Once an application is submitted, activity on the project must cease until completion and approval of the ERR. Commencement of a project or additional work performed on a project prior to the approval of the ERR would be a choice limiting action under NEPA regulations and would deem the project ineligible for CDBG financing.

- B. Davis Bacon Federal Prevailing Wage Compliance. The use of CDBG funding to pay for construction costs (e.g., equipment installation or tenant improvements) will trigger federal prevailing wage compliance. In addition, state prevailing wage compliance may also be required. Loan processing staff will work with loan applicants to ensure projects are in compliance with HUD federal prevailing wage regulations and federal procurement standards. Any additional costs resulting from this regulation will be incorporated into the business loan and may be financed with CDBG funds.
- C. Acquisition and Relocation laws. Laws regarding acquisition and relocation may be triggered when using CDBG funds (24 CFR 570.606). Acquisition laws, both federal and state, must be followed when CDBG funds are used to assist in the purchase of real property. In the same way, federal and state relocation laws apply whenever there may be displacement of a person or business because of the CDBG funding. Loan processing staff will work with loan applicants to ensure the business is in compliance with all state or federal acquisition /relocation laws triggered by the project. Applicants will be informed of any additional costs or administrative work required due to acquisition or relocation regulations.
- D. Data Universal Numbering System (DUNS) & Federal Debarred List. All businesses who desire to receive funds through this Program are required to obtain a DUNS number. Acquiring a DUNS number may be obtained at no cost via the Internet. In addition, prior to funding, the Lender will confirm the business and all owners are not on the federal debarred list. Applicants will be required to obtain all proper licenses and insurance to operate legally in the community. In addition, HUD also requires that the Department and the Lender collect certain income and demographic data from the business and any new hires resulting from the investment of CDBG funds.
- E. HUD Underwriting Standards. Each CDBG loan is required to comply with HUD



Underwriting Standards. As described in a previous section, loans originating under these guidelines will be underwritten using typical commercial loan underwriting criteria. There is some degree of flexibility in how the underwriting criteria are used so that funds under this program are more advantageous than commercial business loans. In addition to the standard commercial underwriting criteria, projects financed with CDBG funds must adhere to HUD Loan Underwriting Guidelines referenced as **Exhibit 'A'**.

### **3.6 Required Loan Review By Department Staff**

Department staff must review each business assistance loan for procedural compliance with federal regulations and adopted program guidelines. Upon review and approval by the Department of local loan underwriting conducted by the Lender or a third party Administrator, a formal written approval letter will be issued by the Department. See **Exhibit 'B'** of these guidelines for a copy of the Department's current Loan Approval Checklist and guidance on underwriting different types of business assistance loans.

Note: It is recommended that the loan approval package be submitted to the Department for review and approval prior to obtaining approval from the program loan advisory board. Once the Department has approved the loan underwriting process and CDBG regulation compliance, then the Lender can take the loan to the program loan advisory board for approval.

## **4.0 LOAN PROCESSING AND APPROVAL**

### **4.1 Program Marketing**

Program marketing will be conducted by Administrator and Lender staff. The designated staff for the Administrator will arrange local media coverage with ads in local papers. Marketing brochures will be distributed to the local chamber of commerce and visitor's bureau and business networking organizations. Presentations will be scheduled for rotary and real estate organizations in the area. Local commercial lenders will be contacted and information will be provided. Flyers will be sent to all local business owners in the program's service area. Lender staff will work closely with Administrators to ensure that maximum outreach and program education takes place in the service area and applications are processed in accordance with these locally adopted program guidelines.

### **4.2 Fair Lending Compliance**

This program will be implemented in ways consistent with the Lender's commitment to fair lending laws. No person or business shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under any program or activity funded in whole or in part with Program funds on the basis of his or her religion or religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status (number or ages of children), physical or mental disability, sexual orientation, or other arbitrary cause. All personal information of loan applicants will be kept confidential.

### **4.3 Loan Application Processing**

Loan applications will be processed on a first come first served basis. The Administrator will accept loan applications and review for initial eligibility (See **Exhibit 'C': Sample Loan Application**). Applications that do not meet basic requirements of the program will be returned with an explanation in writing outlining the deficiencies of the submittal and a request for additional information.

Loan files will be set up as applications are received and information is gathered. The Administrator will pay a visit to the businesses location and meet personally with the owner(s). Technical assistance will be provided as needed to help the business provide proper information for loan underwriting. The business will be required to provide proper financial information and agree to have credit checks conducted as part of the loan approval process. The Administrator may provide sample financial forms (ie; balance sheets/ cash flows, profit and loss statements, personal financial statements, pro formas) but in no instance will the Administrator's or Lender's staff prepare or complete the financial forms for the applicant. The applicant must be referred to local supporting resources such as local business assistance development organizations that are available to assist applicants in producing proper financial statements, formal business plans, market study or provide financial accounting classes as needed.

Loan applicants are responsible for providing accurate and timely information to the program administration staff as part of the loan process. This includes disclosing any other businesses owners that have greater than a 20% ownership interest. All owners of the business, having a greater than 20% ownership position or a material interest in the operation of the business, are required to provide information and will be subject to the underwriting process. Borrower(s) will be required to provide security for the loan. Borrower(s) shall provide historical financial information and provide explanations of special circumstances of past performance as needed. Owner(s) must provide information on equity invested in the business to date and any current assets available for equity investment into the project. Borrower will be required to provide financial projections for the business that are reasonable and consistent with the past performance of the business.

Once the Administrator has compiled the required credit, financial, and underwriting information and confirmed the loan is eligible under these guidelines, a Loan Approval Memo will be drafted. The Loan Approval Memo including all supporting documentation and the Loan Approval Checklist and instructions will be submitted to the Department for review. If the Department approves the loan's underwriting the Lender may submit the loan request to the Loan Advisory Board (LAB) for approval. Once the loan is approved by the LAB, loan documents may be prepared for loan closing.

### **4.4 Program Loan Advisory Board**

The Loan Advisory Board (LAB) shall be comprised of an odd number of persons. The Lender's staff shall ask LAB members to volunteer for this board. The LAB members

may be from local financial institutions, the Lender, or other interested parties who demonstrate the professional capacity to review and evaluate commercial loans.

LAB loan review and approval of an application will take place after Department review and approval. If the LAB makes significant changes to the approval, the loan must be resubmitted to the Department for a second review and final approval prior to funding. LAB meetings will be scheduled by Lender staff in conjunction with Administrator staff once a loan has been underwritten and is ready for review and approval. LAB members are responsible for reviewing each loan application funding proposal and making recommendations to the Lender. The LAB may request additional information or add conditions to the loan request prior to final loan approval.

#### **4.5 Loan Applicant Confidentiality**

Persons serving as the Administrator, Lender, and serving on the LAB for this Program will not disclose any of the borrower's personal confidential information. All confidential information of businesses will only be disclosed to persons required to view the information as part of loan review and approval process. All personal and business confidential information of loan applicants will be kept in a locked secured storage facility and is not available to persons outside of the program. If the Lender, Administrator, or Department receive a request for public records only non-confidential information, as determined by legal counsel, will be provided.

#### **4.6 Applicant Dispute Resolution/Appeals Procedure**

Any business applying for assistance through the CDBG program has the right to appeal if their application is denied. The appeal must be made in writing to the Administrator and the Lender. The LAB will schedule a meeting for the appeal to be heard. If the application is denied a second time, then the person may ask to have their appeal presented to the Lender's governing body for a final decision.

The Administrator is responsible to the Lender to assure that the Program is implemented in compliance with state and federal regulations. In addition, loans must be underwritten in accordance with proper program guidelines in a timely and responsible manner including developing accurate and professional files, work write-ups and contract documents. The Administrator or their representatives will ensure the funded activities are completed and the jobs are created in accordance with federal regulations.

#### **4.7 No Conflict Of Interest Allowed**

In accordance with Title 24, Section 570.611 of the code of federal regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the CDBG program

shall directly or indirectly be eligible for this program. Exceptions to this policy can be made only after public disclosure and formal approval by the governing body and authorized in writing by Lender's legal counsel. In the event representatives from the financial community serving on the Loan Advisory Board (LAB) have a financial interest (excluding regular checking and savings accounts) in a loan application the member will not participate in any discussion or conversation relative to the application or participate in any aspect of the loan the approval process.

#### **4.8 Exceptions / Special Circumstances**

Exceptions are defined as any action, which would depart from policy and procedures stated in the guidelines. For example, if the cost of rehabilitation for critical code deficiencies exceeds 100% of the after-rehabilitation value of the property, the LAB can, on a case-by-case basis, accept a partially secured loan.

The Lender or its agent may initiate consideration of an exceptional/special circumstance. A report on the situation will be prepared. This report shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The Loan Advisory Board shall make a determination of the exceptional/special circumstances request at a regular or special meeting.

Loan payments may, on a case by case basis, be deferred for a period of time to allow for the start up or expansion of a business.

#### **4.9 Loan Closing Process**

Upon approval by the CDBG Program, the Administrator and Lender will prepare all necessary loan closing agreements and documents including title and lien searches, and UCC-1 filings, if appropriate (See **Exhibit 'D': Sample Loan Agreement**). Lender legal counsel will review all agreements and documents, as necessary. Escrow companies should be used for the loan closing process. Upon execution of the loan documents the Lender may request funds from the Department.

### **5.0 DESCRIPTION OF LOANS**

#### **5.1 Determination of Loan Amount**

The maximum loan amount for the Program is \$250,000; although, typical Program loans are anticipated to be within the range of \$75,000 to \$110,000. Loans in excess of \$250,000 must be formally approved by the Department's Economic Development Advisory Committee (EDAC).

Loan amounts will be determined based on the number of jobs to be created or retained, the ability of the business to service the new CDBG loan payment, and the reasonableness of the costs paid for with CDBG funds. If there are not sufficient CDBG funds for the project the Administrator can assist in locating other public or private

funding to leverage the proposed CDBG financing.

## **5.2 Determination of Loan Term**

Generally, the loan term is tied directly to what is being funded and what security is being pledged for the loan. For example, loans for working capital are likely to be of a shorter term than loans provided for equipment and supplies. A loan for real property improvements, which can be secured by property, are likely to have the longest term. The term generally should not exceed the economic life of the asset being financed. The Administrator staff will confirm the term is appropriate based on the use of the CDBG funds.

## **5.3 Determination of Loan Interest Rate**

The interest rate for the loan will be based on the underwriting analysis conducted by the Administrator. Some of the factors that will drive the interest rate are: 1) amount of equity the business brings into the proposed project; 2) ability of business to service the loan; 3) rate of return the borrower will receive; 4) credit risk factors and management experience. By allowing interest rate flexibility, the Lender can best tailor the loans under this program to meet the specific needs of the individual businesses in the community.

## **5.4 Loan Processing Fees**

The CDBG program provides administration and activity delivery funds to pay for loan processing costs. No direct loan fees will be charged to the borrower. However, the Lender may charge a loan servicing fee to the borrower at the close of the loan. Loan servicing fees may not be charged for costs covered and paid for with activity delivery funds. There are no loan pre-payment penalties for loan provide through this program.

## **6.0 LOAN UNDERWRITING STANDARDS**

### **6.1 Initial Loan Evaluation**

Each project / business will be evaluated based on historical performance and financial projections. Specifically the following questions are examples of some of the questions that may be asked upon receipt of a loan application.

- Will the business create or retain jobs?
- Will project meet a CDBG national objective?
- Is the proposed use of funds CDBG eligible?
- Are the business and all owners' credit worthy?
- If a start up, does business have management capacity?
- If a start up, does business have solid business plan and document market demand?
- Does the owner of the business have the financial expertise to operate the proposed business?

- Is the owner(s) contributing a reasonable amount of equity?
- Is the owner(s) able to obtain conventional bank financing, if not, why?
- Has the business been financially viable in the past?
- Are there reasonable financial assumptions for future viability/success?
- Is there enough collateral available to secure the loan funds?

By collecting enough initial application information from the Borrower(s) to answer the above list of questions, the Administrator will have a good sense of how strong a borrower is and how successful they will be if given a CDBG loan. Most of this information is verbally collected at the initial site visit with the owner. By meeting the borrower and asking these questions, the Administrator will know what additional information/documentation needs to be collected to provide a clear picture of how CDBG funds can be used to assist the applicant. These questions demonstrate the need for CDBG funds.

After the initial review the Administrator/ application processor will collect the proper information required for loan underwriting. The required documentation is listed in the CDBG underwriting guidance document included in **Exhibit 'A': HUD Underwriting Guidelines**. The amount of documentation and detailed underwriting is based on size of the loan and type of business (existing or start up) and whether job creation or retention is used. Additional documentation may be required to clarify special circumstances of the business.

The following represents some basic underwriting requirements for a typical loan applicant.

## **6.2 Personal and Business Credit Requirements**

Each applicant will have third party credit reports obtained for them. All owners of the business with 20 percent or more interest will have credit reports provided for them. The primary applicant business and all associated businesses of the owners (20% or more ownership) will have a Dunn and Bradstreet report obtained on them as well.

Most credit reporting services will provide credit scores. For this program, credit scores of 550 and above are considered good credit. If no credit scores are available then a narrative must be summarized by the Administrator to give a justification for making a determination of good or bad credit. This same narrative process will be used for the business credit reports to demonstrate the good standing or poor standing of the business being evaluated.

## **6.3 Personal and Business Financial Information**

Personal financial statements will be required for each person who owns 20% or more of the business. Financial statements need to show all assets and liabilities of the interest holder. In addition to these statements, federal tax return statements for owners and the business for the past three years are needed to give a historic perspective of income.

For the business, historic financial statements will be required. These will consist of the past three year's balance sheets and cash flow statements. These statements should be put together by the person responsible for doing the bookkeeping and finance management for the business. Based on these statements, the Lender can develop ratios for debt service and payment history, etc.

The business will also need to provide future projected financials. These will consist of pro formas showing projected revenue and costs for the business on a monthly basis for each fiscal year for three years out. A new business may need to provide five years of projections. These pro formas need to be completed showing the business projections with CDBG financing and showing the business with conventional financing. This will provide evidence of the benefit / increased profit the business is receiving by using the more affordable CDBG loan. These pro formas must also show the increased costs of the business due to the new jobs created and the additional CDBG debt service.

A project sources and uses form must be provided to show what funding is required to complete the proposed loan activity. This form will show the owners equity as well as private bank financing and any other investments from other sources. The sources and uses give a clear idea of what costs the CDBG loan will cover and its information must be reflected in the pro formas as described above.

Using the information in these financial statements, along with any back up documentation required, will allow the Administrator to do the project's underwriting analysis. This analysis will include both the conventional lending underwriting and HUD required underwriting.

#### **6.4 Collateral Requirements**

All loans under this program will be collateralized using standard commercial lending underwriting guidelines. Collateral coverage will be assessed based on assets available as security. CDBG funding is typically in a subordinate position to banks and other lenders. It is the goal of the Program to obtain a favorable lien position to assist in ensuring loan repayments and permanent job creation. Types of collateral may include:

- Secured liens on real property,
- UCC liens on machinery, equipment, or other fixtures,
- Lease assignments, as appropriate,
- Personal and corporate guarantees, as appropriate, and;
- Life insurance and other collateral, as appropriate.

Appraisals may be required in determining the value of collateral used to secure CDBG financing. Combined loan to value ratio on collateral for the typical CDBG loan should not exceed ninety percent (90%). Equipment and inventory secured should be properly discounted to reflect actual resale value.

#### **6.5 Business Experience And Management Capacity**

The Administrator will obtain resumes and management histories to show the experience of business owners and their management staff in successful operation of the existing business or a comparable business. This will be most important with start up businesses or with applicants that wish to use CDBG funds to purchase an existing business that is closing.

## **7.0 LOAN SERVICING**

### **7.1 Loan Servicing Agent**

Program loan repayments will be collected by the Lender for deposit into the proper CDBG program income revolving loan account(s) in accordance with the currently approved CDBG program income reuse plan. Program loan repayments will adhere to the Program Income Reuse Plan's general administration annual allowable costs. The Lender will keep an itemized accounting of the source of the loan payments.

The Lender will require periodic financial statements from borrowers (typically annually) that will be reviewed by the Lender to determine the financial health of the business. This review will allow the Lender to be proactive in providing the business with technical assistance and effectively managing the status of the asset.

### **7.2 Loan Servicing Policies & Procedures**

The Lender has adopted loan servicing policies & procedures that describe how the servicing of loan will proceed under varying circumstances (See **Exhibit 'G': Loan Servicing Policies**). The policy extends beyond underwriting and loan originating procedures to address loan monitoring, collection and foreclosure and asset liquidation.

## **8.0 PROGRAM OVERSIGHT BY LENDER**

### **8.1 Oversight of Program Administrator:**

The Lender's staff will serve as the primary contact with the State CDBG program representative for the Program. Lender's staff will be responsible for securing services of a qualified Administrator for implementation of this Program. The Administrator can be secured via proper CDBG procurement, a subrecipient agreement or a Non-profit Development Organization Agreement.

The Administrator will follow these adopted program guidelines. The Lender's staff will work directly with the Administrator and be kept informed of all marketing efforts and outreach. The Administrator will provide a monthly tracking sheet to the Lender's staff showing all applications received and the current status.

As per the agreement between the Lender and Administrator, all required reports for the Program will be reviewed and approved by the Lender's staff prior to any signatures. For financial reporting, the Lenders staff will ask for the Lender's fiscal staff to review



and approve each fiscal report.

Upon completion of the loan underwriting by the Administrator, the Lender's staff will review the loan package and coordinate through the Administrator submittal to the State for review and approval. Upon State CDBG written approval, the Lender's staff will schedule a Loan Advisory Board (LAB) meeting. The Lender's staff will ensure all loan documents are properly reviewed by legal staff and meet CDBG requirements prior to borrower's execution of the documents and loan closing.

## **8.2 Oversight of Loan Servicing Agent**

The Lender's staff will be responsible for servicing the loan or may secure the services of a loan servicing agent. The Lender's staff or a loan servicing agent will comply with local loan servicing policies when collecting payments. All loan repayments of past CDBG economic development loans will be serviced by the Lender's staff or an agency experienced in collecting and servicing business loans. The Lender's staff will work closely with the loan servicing agent in monitoring the Lender's existing economic development loans. The Lender's staff or loan servicing agent will provide monthly reports on the status of loan payments to be reviewed by the Lender's Program over site staff and fiscal staff.

At each LAB meeting, the Lender's staff and/or loan servicing agent will brief the LAB members on any problems or concerns regarding repayments of existing loans which may include decisions to foreclose and declare defaults. The governing body with direction and consultation provided by staff and legal counsel will make the final decision regarding troubled assets. .

The Lender's staff or loan servicing agent will complete the proper quarterly and annual program income reports for review, approval, signature and submittal by the Lender to the State CDBG program representative. .